



OXFORD ANALYTICA

THAILAND

FISCAL TRANSPARENCY

Country Report 2005

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THAILAND



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2005	2004	2003	2002
Clarity of roles
Availability of information
Budget preparation
Accountability
Score	3.50	3.25	2.75	2.25

OUTLOOK & COMMENTARY

Thailand continues to establish the necessary structure and legislation to support its commitment to the IMF's Special Data and Dissemination Standards. The decentralisation process has proved slower than initially hoped, but the government is continuing to move forward with it. Several programmes now in place should increase capacity at local administrative levels. Public debt control remains a major goal of the Bureau of Budget, but progress is dependent on the privatisation process, the timing of which is uncertain.

Programmes are underway to measure the quasi-fiscal activities of the Specialised Financial Institutes. However, contingent liabilities remain a source of concern in view of the limited transparency and accountability of various liabilities related to government initiated funds.

EXECUTIVE SUMMARY

3.50 Enacted

Commentators expressed some concern over the decentralisation programme, whose fiscal revenue target of 35% by calendar year 2006 is now perceived as over-optimistic. The government continues to pursue the process, however, and a few programmes are now in place at the local level to increase the capacity for administering local revenue. It is the decentralisation of education and health that will determine the success of the entire programme.

The plans for reducing public debt and holding it under 50% of the public debt to GDP ratio remain dependent on the privatisation programme. However, the privatisation of state-owned enterprises has suffered further regulatory delays in 2005, with the Electrical Generating Authority of Thailand (EGAT) privatisation being halted in November.

The Bureau of Budget has adopted performance based budgeting, with four government agencies now fully using the new system. Budget expenditure is allocated according to nine strategies, allowing the government to disburse funds according to the performance attained as measured by each strategy.

The Medium Term Expenditure Framework allows the government to target a balanced budget from 2005 onwards. Controlling the debt of the Financial Institutions Development Fund and the quasi-fiscal activities of the Specialised Financial Institutes remain a priority.

Thailand's overall score has improved from 3.25 in 2004 to 3.50

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



Enacted

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions, and responsibilities of government

The 1997 Constitution of the Kingdom of Thailand clearly defines the roles of the executive, legislative and judicial branches of the central government.¹ The relationship between different government levels with regard to fiscal policy, transfers and borrowings, and the distribution of tax powers is set out and distinguished from the rest of the economy. The government sector comprises the central government, local governments, the Social Security Fund and other extra-budgetary funds. These categories are reflected in the compilation and distribution of Thailand's fiscal data, which are compiled following the provisions in the IMF Government Finance Statistics Manual 2001 (GFSM 2001). The government expects to achieve full implementation of the GFSM 2001 in the near term.²

The 1997 Constitution stipulates the devolution of administrative powers to local administrative organisations (LAOs, comprising municipalities, provincial administrations, *tambon* [village] administrations, the Bangkok Metropolitan Authority and Pattaya City). The 1999 Determining Plan and Process of Decentralisation to Local Government Organisation Act further stipulates that subsidies, tax and duty, and other revenues will be allocated to LAOs according to a progressive scale, rising from 22.5% of net government revenues in fiscal year 2004 to 35% in calendar year 2006.³ By October 2005, the revenues had reached 24.1%.⁴ Under the devolution plan, responsibility for infrastructure, health, education, housing, and welfare (with health and education accounting for one third of the budget) will be progressively transferred to local authorities.⁵ In November 2005, the ruling party, Thai Rak Thai, announced amendments to the Power Decentralisation Act that should facilitate the transfer of public schools to local governments.⁶

Thailand's fiscal decentralisation programme has been criticised by the IMF and other international institutions. Critics have argued that many LAOs were too small for efficient and effective operations, and that the 35% revenue target for 2006 looked unfeasible.⁷ The fact that the devolution of revenues preceded the devolution of functions, and that only limited information had been disseminated among the relevant agencies, raised particular concerns. Government officials acknowledged that problems in transferring functions to LAOs had occurred. Commentators pointed to both local political resistance and the absence of technical capacities to administer the revenue locally, but also agreed that progress had been made towards improving the levels of capacity, notably via the training in data collection provided to local CFOs and CEOs by the National Economic and Social Development Board (NESDB).⁸ There was a particular focus on the lack of information from the government on how it plans to meet the 35 % target.⁹

Thailand is comprehensively changing the structure of its central government. After a complex process, the Thai parliament approved two core civil service reform bills in September 2002: the Bureaucratic Restructuring Bill and the Civil Service Administrative Reform Bill. The timing of the bills was mostly designed to facilitate passage of the 2003 budget under a new administrative structure. In practice, reforms are expected to take five years to complete at a procedural level.

Coordination and management of budgetary activities

Mechanisms for the coordination and management of budgetary and extra-budgetary activities are well established. The principal fiscal institutions are the Ministry of Finance (MoF), including its Fiscal Policy Office (FPO), the Bureau of the Budget (BOB), and the National Economic and Social Development Board (NESDB). Additional government departments are responsible for specific fiscal tasks.

The overall organisational structure of the MoF, including the FPO, the Comptroller General's Department and the Customs Department is well defined.¹⁰ The FPO is an instrumental government agency charged with financial and economic policy formulation.¹¹ It has departmental status, with the authority to make recommendations on and oversee the implementation of fiscal, financial, government borrowings, capital markets, and other macroeconomic policies.

The BOB is responsible for improving budget allocation and delegating fiscal administrative authority to ministries and departments, so as to ensure flexible and effective public administration.¹² It focuses on strategic policy setting rather than on detailed operational control, and seeks to streamline the budget process in order to reduce duplication of tasks.

The NESDB is a planning authority, responsible for formulating the five-year plans, the annual development plans and appraising development projects.¹³

Relations between government and public sector agencies

The relationship between monetary and fiscal operations is clearly defined in the 1942 Bank of Thailand Act, which allows for an independent central bank. As part of Thailand's reforms, a new Bank of Thailand Act designed to reinforce the central bank's independence has been awaiting parliamentary approval, but in 2005 that draft was withdrawn and replaced by a Royal Emergency Decree with only limited operational amendments. The independence of the central bank is not mentioned in the decree.¹⁴

The Bank of Thailand (BoT) is the government's fiscal agent and it may grant unsecured loans and advances to the government, through the MoF, only for expenditure authorised in the ordinary budget under the specific restrictions established in Section 12 (8) of the Royal Decree 1942 regulating the affairs of the BoT and the Budgetary Appropriations Acts of 1959 and 1960. Although in practice such loans rarely occur, it was mentioned that this would be a permanent challenge to the independence of the BoT. The BoT is also responsible for the dissemination of a wide variety of data on the public sector.

Prime Minister Thaksin Shinawatra has occasionally indulged in rhetoric that raised doubts about the autonomy of the independent agencies. Indeed, the MoF *Strategic Plan 2004-2008* sets itself the goal of coordinating and determining 'fiscal policy, monetary policy, exchange rates policy, and interest rates policy to create economic stability'.¹⁵ Commentators said the BoT's independent status continues for the present, but in the absence of new legislation it remains difficult to forecast how long this will remain the case.¹⁶

Thailand's Specialised Financial Institutions (SFIs) are the responsibility of the MoF and operate in accordance with government policy for economic development. The SFIs include (among others), the Government Savings Bank, the Export-Import Bank, the SME Development Bank, the Islamic Bank of Thailand, the Government Housing Bank and the Bank for Agriculture and Agricultural Cooperative.

Commentators had earlier noted the risks posed to fiscal consolidation stemming from liabilities incurred by SFIs on loans that were not recorded officially, and to competing private sector financial institutions by the non-transparent

and unaccounted operations of SFIs.¹⁷ In its 2003 Article IV consultation, the IMF encouraged the government to bring the SFIs' quasi-fiscal activities within the official budget, to improve transparency and accountability, and to enhance oversight of the commercial operations of the SFIs. The IMF also noted that such new quasi-fiscal initiatives by the SFIs -- such as loans to boost credit and home ownership -- had partly offset the government's consolidation of public debt.¹⁸

In its *Strategic Plan 2004-2008*, the MoF aims to have each SFI comply with its Public Service Account, which distinguishes between commercial and policy operations, and to install analytical and monitoring systems.¹⁹ The MoF, with the assistance of the ADB, has carried out studies on fiscal liabilities and the resulting report is available on the FPO website.²⁰ The project helps to separate the accounts of SFIs into two distinct accounts: one recording all normal operational activities and one recording all special activities initiated by the government. The Bank of Agriculture and Agricultural Cooperatives, the Government Saving Bank, and the Small and Medium Enterprise Bank are now separating their accounts in this manner.²¹ Some commentators said that the government had used SFIs to pump-prime the economy and had thus become overly dependent on loans (which are sometimes poorly recorded) issued by SFIs. In addition, commentators judged that the distortions owing to the muddling of SFIs' quasi-fiscal loans with regular loans were likely of greater magnitude than any potential liability incurred by the government from SFI operations. In this context, improved transparency and regulatory oversight of SFI operations would be greatly welcomed.²²

The Thai Assessment Management Corporation (TAMC) was established in mid-2001 to catalyse corporate debt workouts, and recover assets, notably by acquiring about half of the total distressed assets in the banking system (around 21% of GDP), mostly from state banks. However, a substantial share of distressed assets remains outside of the TAMC, and alternative solutions have yet to be found for these assets.²³ Commentators had earlier criticised the TAMC for failing to provide sufficient information.²⁴ Indeed, the IMF, in its 2003 Article IV consultation, noted that disclosure by the TAMC on its restructuring of corporate sector could be improved.²⁵ In 2004, commentators said that the TAMC's reported progress was substantial, but information comparing cash recovery projections to actual cash flow and the schedule of cash recovery from non-performing assets was still lacking detail.²⁶

In 2005, the MoF announced the creation of a debt restructuring agency to replace the Thai Asset Management Corporation. The debtors under the TAMC will be transferred to the new agency, which will have the same goal of reducing non-performing loans. The move has been made necessary by the expiration of the law supporting the existence of the TAMC.²⁷

Government involvement in the private sector

The Thai government is progressively withdrawing from public ownership and economic intervention. The Office of State Enterprises and Government Portfolio (part of the MoF) administers the privatisation programme.²⁸ The Senate, part of the bi-cameral legislature, has a committee to oversee privatisation.²⁹ However, the government is still perceived as intervening frequently in the privatisation process to achieve political objectives. Moreover, some commentators questioned the way in which privatisations had been conducted, especially since the government appeared to be divesting the most profitable state-owned enterprises (SOEs) instead of the inefficient ones.³⁰

Privatisation of the non-financial public enterprises has been a key element of government policy to shore up the economy after the 1997 financial crisis. Non-financial public enterprises include PTT (an oil company), Thai Airways International, the Electricity Generating Authority of Thailand (EGAT), and the second Bangkok International Airport. These also hold other public corporations, private corporations, and government entities established under special legislation. In 1998, the Master Plan for State Enterprise Sector Reform outlined the intention to privatise 59 SOEs.³¹ The MoF *Strategic Plan 2004-2008* includes the goals of transforming SOEs into entities with professional management, and allowing the private sector to manage and/or own those enterprises.³²

In recent years, the ambitious plans for privatising SOEs have suffered regulatory delays and unfavourable trading conditions, which have led to postponement and cancellation. Nevertheless, the government remains committed to the process. Misgivings over high debt levels and the lack of accountability of managers have also dogged privatisation efforts.

The controversial EGAT privatisation interrupted in November 2005, when the Administrative Court halted the initial public offering (IPO) of its shares, scheduled to be booked on November 16-17, pending trial of a lawsuit brought against the privatisation plan.³³

Commentators said SOEs were, as a group, profitable although certain individual SOEs -- including the State Railway and the Expressway and Rapid Transit Authority -- were making losses. SOEs hold a large proportion of government-guaranteed debt (five of the biggest SOEs hold more than 50% of government-guaranteed debt) but most of the contingent liabilities were unlikely to be realised because of the general profitability.³⁴ Some commentators underscored that the government has pushed privatisation too quickly, without allowing sufficient transparency in procedures or sufficient time for the public to respond; one result being that privatisation has largely benefited only the powerful and backroom buyers.³⁵

There should be a clear legal and administrative framework for fiscal management.

Legal framework for budgetary activities

Annual budgets are administered under the 1959 Budget Procedures Act, which authorises the BOB to set spending priorities and allocate funds to public agencies. Previously, these priorities were set by the Prime Minister's Office (which then directly administered the BOB) on the basis of funding plans submitted by each ministry and state enterprise. This highly centralised system proved too costly: poorly established incentives led agencies to attempt to preserve historical levels of spending, rather than using resources effectively. Reforms aimed at amending the budget process have been underway for several years.

The prime minister asked the BOB to use a new budget process in 2003, which focused on planning, costing, and financial and performance reporting. One of the main features was an expedited move towards performance-based budgeting. Four government ministries (Finance, Industry, Commerce, and Justice) are now using the new system, which involves Public Service Agreements signed by the minister, and Service Delivery Agreements between the minister and the department heads.³⁶

The 1959 Budget Procedure Act mandates that the government must set a budget once every twelve months, operating in a fiscal year (FY) that runs from 1 October to 30 September. A special budget debate must be tabled in parliament before the end of July in each year and both houses of parliament must approve the resulting Budget Act before the end of September.

A budget reform bill, which will amend the 1959 Budget Procedure Act, is pending and aimed at strengthening the allocative efficiency of government via an accountability system based on quasi-contracts. As with other pending reform laws in Thailand, the government has not waited for the laws to be enacted before moving towards reforms in accord with the principles of the pending legislation.

The draft of the reform bill would divide the BOB into an operational agency and a Budget Policy Committee (BPC). The BPC aims to establish a link between government policy and budget programmes, so the BPC would enter into the Public Service Agreements with each portfolio minister. If the enacted legislation does not include the BPC, the cabinet will assume its Public Service Agreements responsibilities.³⁷

Legal framework for taxation

The Revenue Department, the Excise Department, the Customs Department administer taxes, while the Board of Investment (BoI) provides a taxes incentives framework. The two most important tax codes are the revenue code and the investment decrees of the BoI. Copies of the revenue code are available through the BoI and Revenue Department. Summaries are available on the respective websites and via the Thailand Investor Service Centre.³⁸ BoI tax incentives can be accessed at the agency's website and in published material, while excise codes are documented on the Ministry of Commerce website.³⁹ Taxpayers who have been treated unfairly can sue the director-general of the Revenue Department in an administrative court.

Ethical standards for public servants

While there is no specific code of conduct for revenue officials, all public officers are bound by a code of conduct and are subject to National Counter-Corruption Commission (NCCC) scrutiny. Members of the public can secure information on individual cases through the 1998 Official Information Act, and can request an ombudsman if they believe they have been wronged. Among other things, the code requires that all public officials issue receipts by hand, and secure a written acknowledgement from the recipient. Seventeen Supreme Administrative Judges have been officially appointed and an Ethics Promotion Centre has been established. Despite commitments to more open government, patronage links between business and political leaders remain endemic, and regulatory reforms have failed to establish a culture of corporate transparency.

2. PUBLIC AVAILABILITY OF INFORMATION



Compliance in progress

The public should be provided with full information on the past, current and projected fiscal activity of government.

Central government operations

Data for central government operations are disseminated on a monthly basis, with a lag of one month from the end of the reference month or quarter, in accordance with Thailand's commitments to the IMF Special Data Dissemination Standard (SDDS). Data are preliminary and subject to revision for five weeks after release. An advance release calendar is available from the MoF's government finance statistics website.⁴⁰ Data are available on the websites of the MoF and the BoT, which include a preliminary budget balance, and details on revenue, expenditure, and public debt -- including actual outturns compared to budget estimates, and compared to the preceding fiscal year.⁴¹

After the 1997-98 financial crisis, the IMF helped Thailand improve its government financial disclosure, since a lack of transparency had contributed to the collapse of the baht. Thailand has faced increasing off-budget obligations since the crisis, some of a legal nature (such as state-guaranteed debt), others reflecting policy commitments (such as non-guaranteed obligations of state-owned enterprises). Statements on the nature and scale of contingent liabilities, tax expenditures and quasi-fiscal activities are still not readily available. The proliferation of off-budget initiatives that could compromise budget transparency and create more contingent liabilities threatens Thailand's transparency record. Guarantees to state enterprises will be limited by a reform of the Public Debt Law, and by the privatisation of some enterprises.⁴² A proposed Public Debt Management Act would restrain government-guaranteed debts for financial SOEs.

In mid-2002, Thailand's gross liabilities -- mostly connected to the costs of financial sector restructuring -- were estimated to be 22% of GDP.⁴³ The Financial Institution Development Fund's off-balance liabilities (estimated at 19% of GDP) have arisen from the issuance of loans against various losses. Additional contingent liabilities are linked to the government's quasi-fiscal activities, including spending programmes funded outside of the budgetary framework.⁴⁴ Activities involving the People's Bank lending in order to absorb excess liquidity and reduce opportunity cost as well as lending exclusively to the poor have increased quasi-fiscal activities of the Krung Thai Bank and the People's Bank. In addition, the quasi-fiscal activity of the Universal Healthcare programme constitutes a source of contingent liabilities, given the difficulty in accurately assessing the numbers of patients in upcoming years.⁴⁵

Public sector operations

The MoF disseminates data on the general government and non-financial public corporations on both a quarterly and annual basis, in compliance with SDDS, on its government finance statistics website.⁴⁶ The MoF disseminates government revenue data from state enterprises on its website on a monthly basis and with historical data to January 2005⁴⁷

Since coming to office in early 2001, the Thaksin government has implemented a number of stimulus programmes separately from its main budget. These include the Village and Urban Community Revolving Fund (VUCRF or Village Fund), the Debt Suspension for Farmers and the Universal Healthcare. The eventual costs of these

programmes are in some cases uncertain, but have been non-recurrent and therefore manageable. The total cost of the Debt Suspension for Farmers is estimated at about 20 billion baht (0.4% of GDP). Losses are compensated by the budget over a three-year period, with 8 billion baht allocated thus far. The government said that the Village Fund had been partly compensated by the year 2005.

In June 2003, the Thai government established the Vayupak Mutual Fund, which sells investments units in companies 'deemed critical for the national interest and economic development' to the public. The MoF is the fund establisher and the Thai Security Exchange Commission was appointed as the regulator of the fund. Although it offers a guaranteed principal and guaranteed minimum return, commentators agreed that the fund would not cause any contingent liability to the government in the future because the assets are of high quality and sold to the fund at a substantial discount.⁴⁸

Some commentators had said that these programmes have been marred by suggestions of a lack of transparency and even deliberate concealment of government intentions. Independent economists have charged that taxpayers were misled over the true cost and anticipated benefits of the extra-budgetary programmes. Nevertheless, these have been popular.⁴⁹ Information on specific programmes is only available on an immediate basis from individual ministries or state enterprises. In practice, it is difficult to secure a full breakdown of expenditures owing to overlapping responsibilities and a tradition of secrecy in the civil service. Commentators have mentioned the existence of a new project, commissioned by the Public Sector Development Commission (PSDC) and the World Bank, to check the leakages occurring between the issuing of the loans to alleviate poverty, and the actual amount received by the targeted groups. Six projects are currently being investigated for inefficiency and corruption, and the results will serve as recommendations to the government.⁵⁰

A commitment should be made to the timely publication of fiscal information.

Debt reporting

In Thailand, public debt has three major components: central government debt, state enterprise debts and the debt of the Financial Institutions Development Fund (FIDF). Thailand releases information on the level and composition of debt as part of its commitment to the SDDS. The Public Debt Management Office (PDMO), a state-run enterprise under the MoF, manages debt. The BoT is responsible for debt information releases. Data are disseminated on the central government's total gross outstanding debt, both external and internal. The debt is broken down by maturity, with domestic debt also listed according to the type of debt holder. The data details outstanding debt borrowed directly by the government to finance the restructuring of the financial sector. The PDMO releases the public debt data monthly on its website; it also maintains databases of annual debt and foreign debt.⁵¹

According to the IMF, coverage of debt statistics is broad, with headline debt covering not only the direct liabilities of the central government but also the debt of non-financial public enterprises and the on-balance sheet liabilities of the FIDF.⁵² However, some commentators and rating agencies have argued that, despite their broad coverage, headline debt statistics underestimate the full extent of government indebtedness since they exclude a large stock of contingent liabilities.⁵³

Since public debt includes government direct borrowing, debt of non-financial SOEs and FIDF debt, the reduction of public debt will be achieved with the decrease of FIDF debt (sales of assets to finance the debt), the decrease of SOEs debts (via privatisation), and the decrease of foreign borrowing up to a restricted ceiling of one billion US dollars (from 1.7 billion US dollars).⁵⁴

Information on sub-national debt is available, although often not current, and not always available in English. The fiscal position of the regions (North, Northeast and South) is disclosed on the BoT website. Local government data

are calculated on the basis of actual transactions of the Bangkok Metropolitan Administration, which accounts for approximately 40% of total local government transactions. The remaining local government data are based on estimates derived from historical trends.

Advance release calendars

In accordance with its commitment to the SDDS, Thailand produces advance release calendars for all the fiscal information it discloses. The calendar gives the precise release dates, and is posted on the IMF Dissemination Standards Bulletin Board and the MoF government finance statistics website.⁵⁵

3. OPEN BUDGET PREPARATION, EXECUTION AND REPORTING

●●●● Compliance in progress

Fiscal policy objectives, macroeconomic framework, and risks

Fiscal policy objectives

The annual budget framework sets out the government's broad political objectives, but lacks more detail on specific fiscal programmes. In the recent past, some commentators said that extensive and ill-documented off-budget activities have impeded efforts to gain an overall picture of fiscal activity.⁵⁶

The current budgetary process operates on a twelve-month cycle, but the ongoing reform process includes measures to adopt longer-term budget planning. The National Economic and Social Development Board (NESDB)'s current five-year plan is the ninth it has prepared; the tenth is now in preparation.

As part of the government's reforms, the BOB has developed a Medium Term Expenditure Framework (MTEF). The MTEF is a four-year rolling budget based on key economic assumptions and fiscal targets. A statement of medium-term outcome targets for all government levels will complement the MTEF framework.⁵⁷ Government agencies have started using the MTEF from FY 2006, which started in October 2005. As a further part of the reforms, the budget process has shifted to zero-based performance budgeting. Key performance indicators, zero-based budgeting, and multiple-year rolling budgets are already in place in several government ministries.⁵⁸ The BOB will now follow strategy-based budgeting using nine strategies: poverty reduction, social and economic development, economic structure reform to enhance competitiveness, natural resources and environment management, international trade promotion, law and interior affairs development, democracy enhancement, national security, and accommodation for change. At the moment, the BoB is developing the tools to be able to measure the impact of budget allocation on the various strategies, in compliance with performance-based budgeting.⁵⁹

Macroeconomic framework

The Fiscal Policy Office (FPO) operates as a government think-tank, and is responsible for making fiscal policy recommendations. It also engages in revenue forecasting (using a consensus of NESDB, BoT and FPO data) and in budget formulation, in which it collaborates with the various tax agencies, the NESDB and the BoT. Each tax collection agency develops its own revenue projections, and the FPO consolidates and presents these as an annual fiscal report.

Fiscal risks

The annual budget documentation identifies quantitative risks, but these are usually outlined in general terms. Cost uncertainties are not factored into expenditure commitments, and the government does not disseminate the underlying framework or a range of alternative fiscal scenarios. Instead, the normal response to deviations from forecasts has been reactionary and ad hoc, with overruns in one area covered by shifting expenditure from another. The release of fiscal forecasting information into the public domain typically occurs through regular FPO press conferences.

The plan to resolve the FIDF's losses has offered a transparent and viable solution to finance a great part of the government's current contingent liabilities.⁶⁰ The MoF and BoT have jointly agreed that the resolution of those losses must be clear and acceptable to all parties, with minimal impact on the government's fiscal position and a minimum burden on taxpayers. The solution must be transparent and in accordance with good governance. In order to set the fiscalisation process in motion, the cabinet approved three Emergency Decrees on 21 June 2002, gaining parliamentary approval a week later. The burden of the principal repayment falls on the BoT.⁶¹

The IMF, in its *Selected Issues Country Report* of January 2004, noted that the most substantial contingent liability, amounting to 100% of GDP, was the blanket guarantee on deposits and selected bank creditors.⁶² A pending Deposit Insurance Act now limits the blanket guarantees on deposits, with each account insured for one million baht.⁶³ Commentators noted that, although the public debt associated with the FIDF off-balance sheet liabilities dominates fiscal consolidation in the near term, the FIDF is at the same time acting as a significant source of extra-budgetary funding.⁶⁴

Fiscal sustainability

The NESDB prepares medium-term fiscal projections. Its macroeconomic figures are integrated into the medium-term fiscal sustainability projection of the MoF. Sensitivity analysis of the key figures is employed to analyse fiscal vulnerability. Forecasts from the FPO, NESDB and private (largely foreign) investment and research institutes are available on the Thailand Investor Service Centre website.⁶⁵ Simplified sensitivity analyses of the key figures, using a numeric model by the Fiscal Policy Research Institute Foundation (independent, but reporting to the MoF), can also be run via the Internet.⁶⁶

The Fiscal Policy Research Institute Foundation made publicly available on its website (in October 2004) the basis for what could be a comprehensive fiscal sustainability analysis for future years.⁶⁷ Under its fiscal sustainability framework, public debt should not be more than 50% of GDP (it was 45.8% as of 30 September 2005), the debt service in the budget should not be more than 15%, and the government will run a balanced budget on fiscal year 2005 and onwards. To comply with this sustainability framework, the government will not increase domestic borrowing, reduce non-financial SOEs debts, and will control the FIDF debts. One last indicator will be to ensure a level of capital expenditures of at least 25% of GDP (this figure does not include the 1.7 trillion baht for the next five years for urban infrastructure programmes).⁶⁸

Budget presentation

Budget data are reported on a gross basis, classified by sector, programme and function. The public sector balance, including details of the activities of the non-government public sector, is included in the overall public sector accounts.

The budget programme can be obtained in Thai from the Revenue Department or from the NESDB (at present available only in Thai). The BOB website is the principal online source for information on the budget, and offers *Thailand's Budget in Brief* in English from FY 1999 onwards.⁶⁹

Budget execution and monitoring

The Budget Information System (BIS) is being developed to support the new budget system. The BIS should expand budget coverage, collect financial and performance information, and make budgeting more efficient by automating many operations. It will also make financial and performance reports readily available to managers to aid decision-making and performance monitoring. The BIS at the BOB is connected to the Government Financial Management

Information System (GFMIS), in order to further facilitate the flow/organisation of critical financial and performance information. The system started operations in October 2004.⁷⁰

Accounting basis

Uncertainties associated with the accounting methodology present a key difficulty in monitoring the execution of the budget in Thailand. Accounting standards are currently being overhauled to an accrual-based accounting system, and authorities are planning an extensive 15-year reform of the accounting process, which is guided by KPMG.⁷¹ At present, many state-owned enterprises have their own accounting standards, with their own empowering act setting down financial norms.

Procurement and employment

All government agencies must adhere to the procurement regulations of the Prime Minister's Office. Procurement rules are currently being overhauled to improve the transparency of public contracts. However, some commentators have stated that ingrained corruption has led to a tradition of deception and inconsistent selection of contractors. Indeed, the parameters for public contracts are frequently changed to suit individual contractors. Since 1992, it has been obligatory for larger projects to be vetted by a panel of planners, but there has been less transparency in smaller projects. In this context, Prime Minister Thaksin has required all public sector agencies to start electronic procurement procedures by the end of 2004.⁷² An e-Government project started operating in 2004; all public sector agencies are now required to have an e-procurement website, but in many cases their operational status was not clear.⁷³

Commentators said transparency in procurement was improving, but was not yet perfected. For example, they noted that for particular purchases there was an informal 'commission' being extracted.⁷⁴

Public sector employment regulations, by contrast, are standardised, and generally meet international standards. They are easily accessible in both Thai and English from the Labour Ministry, the Office of the Civil Service Commission and from the Board of Investment. Comprehensive reforms of the civil service were launched in 1998, with support from the World Bank. The reforms aim to improve the efficacy of policy implementation, promote public participation in national administration and improve accountability. This programme may take as long as 15 years to come to fruition. Progress has been relatively slow, because a number of enabling laws still need to be overhauled or approved.

Fiscal reporting

The Revenue Department reports the state of public revenues on a monthly and quarterly basis. Although there is no formal procedure for presenting a mid-year report, the monthly releases always include a cumulated report, making the sixth monthly report the equivalent of a mid-year report. Budget data are usually only presented to the legislature during the annual budget debate or during occasional censure (no-confidence) debates. There is no established procedure for presenting the results of major budget programmes to the legislature.

The prevalence of off-budget activities, contingent liabilities and quasi-fiscal operations by state financial institutions and other enterprises has had profound implications for fiscal reporting in Thailand, and has compounded the difficulty of reaching an accurate and up to date assessment of the government's fiscal position.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY



Enacted

Data quality standards

Thailand observes the SDDS data dimension requirements in all categories. The BoT compiles and publishes a broad range of economic and financial data, some of which are compiled in accordance with legislative requirements while others are compiled for operational and policy requirements and subsequently published. However, the BoT is not obliged to release data on non-financial public sector operations and central government operations/debt; the central bank disseminates them as a service to the public.

Fiscal time series data reflect revenue and expenditure trends, but disaggregated figures and more updated information are not readily available. Insufficient available analysis complicates attempts to relate trends in the fiscal data with ongoing policy commitments.

The BoT's *Annual Economic Report* publishes detailed information on sources of central government revenue; central government budgetary expenditure broken down by economic classification and by function; non-financial capital expenditure by SOEs; and non-financial SOE financing.

Independent scrutiny of fiscal information

Independent Audit

Under Sections 312-3 of the 1997 constitution, the State Audit Commission and the Auditor General, who are independent and impartial, carry out the state audit. The constitution provides that the king, on the advice of the senate, appoints the members of the State Audit Commission and the Auditor General.⁷⁵ The State Audit Act 1979 specifies the statutory duties of the Office of the Auditor General.⁷⁶

The Office of the Auditor General audits the budgets and fiscal procedures of all public ministries and state enterprises. As an independent agency, it has gained a reputation for neutrality. Under recent changes to the State Audit Act, internal audit committees, consisting of former officials, have been placed within each ministry.⁷⁷ The Comptroller General's Department of the Ministry of Finance also plays a central role in internally monitoring public expenditure and reviewing accounting standards. The Office of the Auditor General and the Comptroller General's Department publish audit statements (in Thai) on their respective websites.⁷⁸

Additional legislative oversight of the budget process presently occurs through the activities of a parliamentary commission, appointed by parliament and chaired by the minister of finance, but this does not provide an independent assessment of budget activity.

National Statistics Agency

Thailand has a decentralised statistical system. The National Statistical Office (NSO) is the government agency acting as the core body responsible for collecting, compiling, and disseminating general-purpose statistics.⁷⁹ The

Statistics Act B.E. 2508 (1965) authorises the NSO to perform its statistical activities and establishes a National Statistical Commission, with members appointed by the Cabinet with a term of three years, to advise the NSO.⁸⁰

Under a revision to a royal decree of 1994, the NESDB is responsible for producing the national accounts statistics. The NSO and the NESDB are subordinate to the Prime Minister's Office and therefore they lack statutory and institutional autonomy for providing independent assessments on data quality. Nevertheless, commentators perceive both the NESDB and the NSO as enjoying technical independence with regard to statistical practices, and that they perform in a professional manner. However, commentators also cautioned that most statistics from local governments were still unreliable.⁸¹ The NESDB is now compiling a new set of data, the Gross Provincial Product (GPP), and is developing projects to train staff for the local collection of data.⁸²

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Thailand between 26 October and 1 November 2005:

Ministry of Finance

1 November 2005

Suparatana Treeriluxana	Director	Fiscal Policy Office
Pairin Podachuen	Director	Budget and Fiscal Policy Division
Pornchai Thiraveja	Director	Expenditure Policy Sub-division
Khamchit Kunakorn	Economist	Fiscal Policy Office
Pisit Puapan	Economist	Fiscal Policy Office
Tatchakorn Pongroj	Economist	Fiscal Policy Office
Chatinee Pakasupa	Economist	Local Fiscal Policy Division
Pahon Kao-ea	Economist	Local Fiscal Policy Division
Chayatat Wadhanakul	Economist	Local Fiscal Policy Division

Bank of Thailand

27 October 2005

Amporn Sangmanee	Division Executive	Monetary Policy Group
Roong Poshyananda Mallikamas	Team Executive	Monetary Policy Group

ADDITIONAL INTERVIEWS

31 October 2005

Teerana Bhongmakapat	Chairman, BA Economics Program	Chulalongkorn University
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26 October 2005

Nitinai Sirismatthakarn	Economic Advisor	Fiscal Policy Research Institute
Susheel Narula	Senior Vice President	SCBS Research Department

27 October 2005

Rapeesupa Wangcharoenrungs	Senior Researcher	Fiscal Policy Research Institute
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1 November 2005

Eric Sidgwick	Senior Economist	World Bank - Bangkok Office
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NOTES

¹ An English translation of the Constitution of the Kingdom of Thailand B.E. 2540 (1997) is available from the website of the Thai Law Reform Commission at:

www.lawreform.go.th/lawDocumentDetail.jsp?groupID=1&groupType=L

² Interviews in Thailand, 4-7 October 2004. See 'Thailand's Government Finance Statistics: Information on Methodology, Data Coverage, and Compilation Practices' at: www.dw.mof.go.th/foc/gfs/Metadata.doc

³ *Thailand's Budget in Brief: Fiscal Year 2004*, (Bureau of the Budget), p. 93, see:

www.bb.go.th/budget/inbrveE/inbrve47E.pdf

⁴ Interviews in Thailand, 26 October to 1 November 2005.

⁵ Interviews in Thailand, 26 October to 1 November 2005.

⁶ *Bangkok Post*, 'TRT gives in to teachers' demands.', 16 November 2005.

⁷ Interviews in Thailand, 4-7 October 2004. Some commentators said that the government would most likely have to reduce the target or extend the date for the 35% target.

⁸ Interviews in Thailand, 26 October to 1 November 2005.

⁹ Interviews in Thailand, 26 October to 1 November 2005.

¹⁰ The organisation chart of the MoF is at: www2.mof.go.th/org_chart.htm

¹¹ See Fiscal Policy Office at: www.fpo.go.th

¹² See Bureau of the Budget at: www.bb.go.th

¹³ See National Economic and Social Development Board at: www.nesdb.go.th

¹⁴ Interviews in Thailand, 26 October to 1 November 2005.

¹⁵ www.thailandoutlook.com/main_sector/government/policies_mof/MOF_plan.htm

¹⁶ Interviews in Thailand, 4-7 October 2004.

¹⁷ Interviews in Thailand, 8-9 December 2003.

¹⁸ 'IMF concludes 2003 Article IV Consultation with Thailand' (Public Information Notice 03/119), 17 September 2003.

¹⁹ www.thailandoutlook.com/main_sector/government/policies_mof/MOF_plan.htm

²⁰ www.fpo.go.th

²¹ Interviews in Thailand, 26 October to 1 November 2005.

²² Interviews in Thailand, 4-7 October 2004.

²³ For a summary of the TAMC and government policy towards it, see:

www.thailandoutlook.com/main_sector/government/policies_mof/TAMC.htm

²⁴ Interviews in Thailand, 9-11 October 2002. Interlocutors at the Securities and Exchange Commission were positive about prospects for increased transparency from TAMC reforms in the near future.

²⁵ 'IMF concludes 2003 Article IV Consultation with Thailand' (Public Information Notice 03/119), 17 September 2003.

²⁶ Interviews in Thailand, 4-7 October 2004.

²⁷ *The Nation*, 'MoF to set up debt restructuring agency to replace TAMC', 16 November 2005

²⁸ See www.mof.go.th/sepc/

²⁹ See the membership of the Senate committee at: www.senate.go.th/privatisation/c_e_10.htm

³⁰ Interviews in Thailand, 4-7 October 2004.

³¹ See the Master Plan at: www.mof.go.th/sepc/sepcfnmenu.htm

³² www.thailandoutlook.com/main_sector/government/policies_mof/MOF_plan.htm

³³ *Bangkok Post*, 'Court Halts EGAT plans to offer shares to the public', 15 November 2005.

³⁴ Interviews in Thailand, 26 October to 1 November 2005.

³⁵ Interviews in Thailand, 4-7 October 2004.

³⁶ Interviews in Thailand, 8-9 December 2003.

³⁷ Pornchai Nuchsuwan, Budget Director, BOB, personal communication, 30 September 2003; interviews in Thailand, 8-9 December 2003.

³⁸ For the BOI overview of the revenue code including corporate income tax, value added tax and specific business tax, and personal income tax, see: www.boi.go.th/english/how/taxation.asp; the Revenue Department has similar information, for example on personal income tax at: www.rd.go.th/publish/6000.0.html; for the Thailand Investor Service Centre and its links to taxation laws, see: www.thailandoutlook.com/top_menu/weblink/laws.asp

³⁹ For BoI tax incentives, see: www.boi.go.th/english/about/investment_policies_criteria.asp

⁴⁰ http://dw.mof.go.th/foc/gfs/database/release_carlendar.xls

- ⁴¹ See the MoF website at: <http://dw.mof.go.th/foc/gfs/index.html>. The Thailand Investor Service Centre has links to the MoF data (only updated to May 2003, after which the FPO Public Finance Data pages take over) at: www.thailandoutlook.com/main_sector/government/govern_fiscal.asp. Detailed revenue data, for example, is available from the MoF at: http://203.150.52.175/foc/program/income_gov/programeng/.
- ⁴² Some of Thailand's contingent liabilities include: deposit guarantees; obligations of the FIDF; liabilities of extra-budgetary funds; net worth of the BoT; non-guaranteed obligations, arrears and deferred maintenance of state-owned enterprises (including concession agreements of public utilities, arrears of the State Railways to the PTT and deferred railway track rehabilitation). In addition, there are future possible commitments and obligations of sub-national governments and the pay-as-you-go pension system.
- ⁴³ IMF Country Report, No. 02/195, September 2002.
- ⁴⁴ Lorenzo Giorgianni, "An assessment of Thailand's fiscal vulnerability", in IMF, *Thailand: Selected Issues and Statistical Appendix*, Country Report No. 02/195, September 2002. www.imf.org/external/pubs/cat/longres.cfm?sk=16056.0
- ⁴⁵ Interviews in Thailand, 26 October to 1 November 2005.
- ⁴⁶ <http://dw.mof.go.th/foc/gfs/index.html>
- ⁴⁷ http://203.150.52.175/foc/program/state_Enterprise/programeng
- ⁴⁸ "Managing Fiscal Risk in Asia: Thailand", Background paper by the Revenue and Fiscal Policy Office, Minister of Finance, June 2005.
- ⁴⁹ Interviews in Thailand, 9-11 October 2002.
- ⁵⁰ Interviews in Thailand, 26 October to 1 November 2005.
- ⁵¹ See the PDMO Public Debt Database in English and Thai at: www.pdmo.mof.go.th/index_eng.asp
- ⁵² Lorenzo Giorgianni, "An assessment of Thailand's fiscal vulnerability", in IMF, *Thailand: Selected Issues and Statistical Appendix*, Country Report No. 02/195, September 2002, p. 44.
- ⁵³ Interviews in Thailand, 9-11 October 2002; interviews in Thailand, 4-7 October 2004.
- ⁵⁴ Interviews in Thailand, 26 October to 1 November 2005.
- ⁵⁵ http://dw.mof.go.th/foc/gfs/database/release_carlendar.xls
- ⁵⁶ Interviews in Thailand, 24-27 September 2001.
- ⁵⁷ Pornchai Nuchsuwan, personal communication, 30 September 2003.
- ⁵⁸ Interviews in Thailand, 4-7 October 2004.
- ⁵⁹ Interviews in Thailand, 26 October to 1 November 2005.
- ⁶⁰ Lorenzo Giorgianni, "An assessment of Thailand's fiscal vulnerability", in IMF, *Thailand: Selected Issues and Statistical Appendix*, Country Report No. 02/195, September 2002.
- ⁶¹ "The Fiscalization of Financial Institutions Development Fund's losses", 20 June 2002, www.bot.or.th/BOTHomepage/General/PressReleasesAndSpeeches/PressReleases/news2545/Eng/n2245e.htm; see also: www.thailandoutlook.com/main_sector/government/govern_fiscal_fiscal.asp
- ⁶² *Thailand: Selected Issues*, IMF Country Report No. 04/1, January 2004, p. 17.
- ⁶³ Interviews in Thailand, 26 October to 1 November 2005.
- ⁶⁴ Interviews in Thailand, 4-7 October 2004. On the FIDF's contribution, in the years 2002-2006, in fiscal consolidation see: *Thailand: Selected Issues*, IMF Country Report No. 04/1, January 2004, p. 20.
- ⁶⁵ www.thailandoutlook.com/main_sector/economic_forecast/forecast_inside.asp
- ⁶⁶ www.thailandoutlook.com/main_sector/economic_forecast/simulation.asp
- ⁶⁷ www.fpri.or.th/publication/fiscal1.asp
- ⁶⁸ Interviews in Thailand, 26 October to 1 November 2005.
- ⁶⁹ See www.bb.go.th/budget/menu01E.htm.
- ⁷⁰ Interviews in Thailand, 26 October to 1 November 2005.
- ⁷¹ Interviews in Thailand, 9-11 October 2002.
- ⁷² Interviews in Thailand, 4-7 October 2004.
- ⁷³ See http://egov.thaigov.net/thailand_eGovernment.html; interviews in Thailand, 26 October to 1 November 2005.
- ⁷⁴ Interviews in Thailand, 4-7 October 2004.
- ⁷⁵ See the relevant sections of the constitution at: www.oag.go.th/information/OAG1Q10102.htm
- ⁷⁶ See Section 7 of the State Audit Act at: www.oag.go.th/information/OAG1Q10101.htm
- ⁷⁷ Interviews in Thailand, 4-7 October 2004.
- ⁷⁸ Interviews in Thailand, 9-11 October 2002. See the websites of the Office of the Auditor General, at: www.oag.go.th/OAG0Q005.htm and the Comptroller General's Department at: www.cgd.go.th/
- ⁷⁹ www.nso.go.th/eng/

⁸⁰ See the Statistics Act B.E. 2508 at: www.nso.go.th/eng/about/fnsol.htm

⁸¹ Interviews in Thailand, 4-7 October 2004.

⁸² Interviews in Thailand, 26 October to 1 November 2005.